

[7 August, 2001]

**RAJYA SABHA**

launching awareness raising and education programmes on the effects of drug abuse, training officials involved in drug abuse prevention and conveying out community based activities aimed at identifying, motivating, treating and rehabilitating drug addicts through the Non-Government Organisations (NGOs). Government is continuing with its programme of supporting NGOs through appropriate intervention for containing the abuse of drugs in the country. Government is implementing the scheme for Prevention for Alcoholism and Substance (Drugs) Abuse wherein grant-in-aid is provided to the NGOs for prevention, counselling, treatment and rehabilitation services.

**Amendment in Banking Rules**

**†1765. SHRI P.K. MAHESHWARI:** Will the Minister of FINANCE be pleased to state:

- (a) whether Banking Regulatory Authority hesitate in offering bank's status to such financial institutions who are not in a position to fulfil all the rules;
- (b) if so, whether Government's attention has been drawn to the need of providing banking license to domestic financial institutions keeping in view the interests of consumers;
- (c) if so, whether Government propose to amend the provisions of Banking Regulatory Authority; and
- (d) if not, the reasons therefor?

**THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL):** (a) to (d) Reserve Bank of India has identified certain operational and regulatory issues which needs to be addressed before Development Financial Institutions are transformed into universal banks. In this regard, a letter was sent to the chief executives of Financial Institutions (FIs) by RBI. The salient operational and regulatory issues to be addressed by the FIs for conversion into a universal bank are given in the statement.

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†Original notice of the question was received in Hindi.

**Statement*****Salient operational and regulatory issues to be addressed by the FIs for conversion into a Universal Bank*****(a) Reserve requirements**

Compliance with the cash reserve ratio and statutory liquidity ratio requirements (Under Section 42 of RBI Act, 1934, and Section 24 of the Banking Regulation Act, 1949, respectively) would be mandatory for an FI after its conversion into a universal bank.

**(b) Permissible activities**

Any activity of an FI currently undertaken but not permissible for a bank under Section 6(1) of the B.R. Act, 1949, may have to be stopped or divested after its conversion into a universal bank.

**(c) Disposal of non-banking assets**

Any immovable property, howsoever acquired by an FI, would after its conversion into a universal bank, be required to be disposed of within the maximum period of 7 years from the date of acquisition, in terms of Section 9 of the B.R. Act.

**(d) Composition of the Board**

Changing the composition of the Board of Directors might become necessity for some of the FIs after their conversion into a universal bank, to ensure compliance with the provisions of Section 10(A) of the B.R. Act, which requires at least 51% of the total number of directors to have special knowledge and experience.

**(e) Prohibition on floating charge of assets**

The floating charge, if created by an FI over its assets, would require, after its conversion into a universal bank, ratification by the Reserve Bank of India under Section 14(A) of the B.R. Act, since a banking company is not allowed to create a floating charge on the undertaking or any property of the company unless duly certified by RBI as required under the Section.

**(f) Nature of subsidiaries**

If any of the existing subsidiaries of an FIs engaged in an activity not permitted under Section 6(1) of the B.R. Act, then on conversion of the FI into

a universal bank, delinking of such subsidiary/activity from the operations of the universal bank would become necessary since Section 19 of the Act permits a bank to have subsidiaries only for one or more of the activities permitted under Section 6(1) of B.R. Act.

*(g) Restriction on investments*

An FI with equity investment in companies in excess of 30 per cent of the paid up share capital of that company or 30 per cent of its own paid-up share capital and reserves whichever is less, on its conversion into a universal bank, would need to divest such excess holdings to secure compliance with the provisions of Section 19(2) of the B.R. Act, which prohibits a bank from holding shares in a company in excess of these limits.

*(h) Connected lending*

Section 20 of the B.R. Act prohibits grant of loans and advances by a bank on security of its own shares or grant of loans or advances on behalf of any of its directors or to any firm in which its director/ manager or employee or guarantor is interested. The compliance with these provisions would be mandatory after conversion of an FI to a universal bank.

*(i) Licensing*

An FI converting into a universal bank would be required to obtain a banking licence from RBI under Section 22 of the B.R. Act, for carrying on banking business in India, after complying with the applicable conditions.

*(j) Branch network*

An FI after its conversion into a bank would also be required to comply with extent branch licensing policy of RBI under which the new banks are required to allot at least 25 per cent of their total number of branches in semi-urban and rural areas.

*(k) Assets in India*

An FI after its conversion into a universal banks will be required to ensure that at the close of business on the last Friday of every quarter, its total assets held in India are not less than 75 per cent of its total demand and time liabilities in India, as required of a bank under Section 25 of the B.R. Act.

(l) *Format of annual reports*

After converting into a universal bank and will be required to publish its annual balance sheet and profit and loss account in the form set out in the Third Schedule to the B.R. Act, as prescribed for a banking company under Section 29 and Section 30 of the B.R. Act.

(m) *Managerial remuneration of the Chief Executive Officers*

On conversion into a universal bank the appointment and remuneration of the existing Chief Executive Officers may have to be reviewed with the approval of RBI in terms of the provisions of Section 35B of the B.R. Act. The Section stipulates fixation of remuneration of the Chairman and Managing Director of a bank by Reserve Bank of India taking into account the profitability, net NPAs and other financial parameters Under the Section, prior approval of RBI would also be required for appointment of Chairman and Managing Director.

(n) *Deposit Insurance*

An FI, on conversion into a universal bank would also be required to comply with the requirement of compulsory deposit insurance from DICGC up to a maximum of Rs. 1 lakh per account as applicable to the banks.

(o) *Authorised Dealer's Licence*

Some of the FIs at present hold restricted AD licence from RBI, Exchange Control Department to enable them to undertake transactions necessary for or incidental to their prescribed functions. On conversion into a universal bank, the new bank would normally be eligible for fullfledged authorised dealer licence and would also attract the full rigour of the Exchange Control Regulations applicable to the banks at present, including prohibition on raising resources through external commercial borrowings.

(p) *Priority sector lending*

On conversion of an FI to a universal bank, the obligation for lending to "priority sector" up to a prescribed percentage of their 'net bank credit' would also become applicable to it.

(q) *Prudential norms*

After conversion of an FI into a bank, the extent prudential norms of RBI for the all-India financial institutions would no longer be applicable but the norms as applicable to banks would be attracted and will need to be fully complied with.

(This list of regulatory and operational issues is only illustrative and not exhaustive).